UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SCOTT REIMER, Individually and On Behalf of All Others Similarly Situated, Plaintiff, vs. FEDERAL HOME LOAN MORTGAGE CORPORATION, RICHARD F. SYRON, PATRICIA COOK, ANTHONY PISZEL and EUGENE M. McQUADE, Defendants.	Civil Action No. 07-10526 CLASS ACTION COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS DEMAND FOR JURY TRIAL

INTRODUCTION AND OVERVIEW

1. This is a class action for violations of the anti-fraud provisions of the federal securities laws on behalf of all purchasers of Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Company") common stock between August 1, 2006 and November 19, 2007 (the "Class Period"), who were damaged thereby (the "Class").

2. Freddie Mac is a shareholder-owned company established by Congress in 1970 to support homeownership and rental housing. Freddie Mac purchases residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. The Company is headquartered in McLean, Virginia.

3. During the Class Period, defendants made false and misleading statements concerning Freddie Mac's business, its risk management and the procedures it put into place to protect the Company from problems in the mortgage industry. In fact, during the Class Period, Freddie Mac was not adequately implementing risk control measures. Moreover, the Company's procedures for appraisals led to many inflated appraisals, increasing the risk of defaults. Ultimately, the Company has reported billions of dollars in losses, has been mentioned in investigations by the New York Attorney General and announced it must raise new capital to meet regulatory requirements. When the truth was revealed, the artificial inflation caused by defendants' misleading statements came out of the stock price, damaging plaintiff and members of the Class.

4. In fact, during the Class Period, defendants concealed the following information which caused their statements to be materially false and misleading:

(a) Defendants were not implementing sufficient risk management controls to protect the Company from acquiring billions of dollars worth of mortgages with poor underwriting standards, causing the Company to have an untenable amount of risky loans.

(b) Defendants were not implementing controls to ensure that appraisals were done appropriately and to prevent collusion between lenders and appraisers, increasing the risk of defaults.

(c) The Company was not adequately reserving for uncollectible loans, causing its financial results to be misleading.

(d) The Company had billions of dollars of bad loans which it would eventually have to write off, causing losses and capital deficiencies.

JURISDICTION AND VENUE

5. The claims asserted arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act") and Rule 10b-5. Jurisdiction is conferred by §27 of the 1934 Act. Venue is proper pursuant to §27 of the 1934 Act. Freddie Mac has operations in this District and false statements were made in this District and acts giving rise to the violations complained of occurred in this District.

THE PARTIES

6. Plaintiff Scott Reimer purchased Freddie Mac common stock during the Class Period as set forth in the attached certification and was damaged thereby.

7. Defendant Freddie Mac was charted by Congress in 1970 to make mortgages liquid and stable. Freddie Mac's stock is traded under the symbol FRE on the New York Stock Exchange, which is an efficient market.

8. Defendant Richard F. Syron ("Syron") was, at all relevant times, Chairman and Chief Executive Officer ("CEO") of the Company. Syron received total 2006 compensation of $14.7 million.

9. Defendant Patricia Cook ("Cook") was, at all relevant times, Executive Vice President and Chief Business Officer of the Company.

10. Defendant Anthony Piszel ("Piszel") was, at all relevant times, the Company's Executive Vice President and Chief Financial Officer ("CFO"). Piszel received total 2006 compensation of $3.65 million.

11. Defendant Eugene M. McQuade ("McQuade") was President and Chief Operating Officer ("COO") of the Company until his resignation on September 1, 2007.

12. The defendants named in ¶¶8-11 are referred to herein as the "Individual Defendants."

FRAUDULENT SCHEME AND COURSE OF BUSINESS

13. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Freddie Mac. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Freddie Mac common stock was a success, as it: (i) deceived the investing public regarding Freddie Mac's prospects and business; (ii) artificially inflated the price of Freddie Mac common stock; and (iii) caused plaintiff and other members of the Class to purchase Freddie Mac common stock at inflated prices.

BACKGROUND

14. Freddie Mac is a shareholder-owned, government-sponsored enterprise that, along with sister Fannie Mae, creates liquidity in the residential mortgage market by guaranteeing, purchasing, securitizing, and investing in such loans. The Company, which is prohibited from originating loans, buys conventional residential mortgages from mortgage bankers, transferring risk from them and allowing them to provide mortgages to those who otherwise would not qualify. This risk transfer function requires that the Company implement controls to protect it from defaults.

15. In a move initiated by its auditor, Freddie Mac re-audited its earnings from 2000 to 2003, uncovering accounting irregularities and employee misconduct. Further investigations, executive oustings, restructuring, and numerous lawsuits followed. In late 2003, Freddie Mac announced the findings of its re-audit. The Company admitted to understating earnings by $4.4

billion between 2000 and 2002 and overstating profits by $989 million in 2001, all in an attempt to smooth out results and show steady profit growth.

16. These prior accounting problems and its risk profile made the defendants' statements about Freddie Mac's internal accounting controls extremely important to the market.

FALSE AND MISLEADING STATEMENTS PRIOR TO THE CLASS PERIOD

17. On January 24, 2006, in his prepared speech to The Money Marketeers of New York University, defendant Syron stated in part:

> Is there risk in what we do? Of course. That's not the question. We're looking at ***comparative*** risk here – but not ***no*** risk. And what's less risky is that our strong management team, robust internal procedures and systems enable us to monitor these risks real-time and mitigate the potential for significant losses.

18. Also on January 24, 2006, the Company issued a press release entitled "Freddie Mac Chairman and CEO Richard Syron Discusses Company's Risk Management, Vital Role in America's Housing Finance System." The release stated in part:

> Freddie Mac continues to manage interest-rate and other risks prudently, and provides highly transparent and timely disclosures on its risk-management measures, Syron explained.

19. On February 1, 2006, at a Citigroup Financial Services Conference, defendant McQuade stated:

> Our goals for this year are . . . .
>
> • First, continue to fulfill our house mission. That's what Congress put us here to do.
>
> • Second, focus on improving what is in our control – by which I mean get our financials current, get registered with the SEC, and continue striving for operational and risk excellence.

20. On February 8, 2006, at a Credit Suisse First Boston Financial Services Conference, defendant Cook stated:

We continue to improve our systems and controls, and I think every time we get a question on the timeliness of our financial reporting, you get the answer back that that is our goal. The requirement to getting back to timely financial reporting is continuing to improve on the controls so that we can get the timeline down for issuing our financial reports to something that is relatively quick.

* * *

So what are the priorities for '06? Obviously, to continue to execute against our housing mission. This is the number one objective for Freddie Mac. The second is to focus on what we can control in terms of continuing to strengthen our risk management infrastructure and our financial reporting infrastructure.

21. On March 31, 2006, the Company issued a press release entitled "Freddie Mac Provides Market Update; Total Mortgage Portfolio Up 12 Percent in 2005; Company Maintains Strong Capital Position, Balance Sheet." The release stated in part:

Internal Controls/Financial Reporting Update

The company is pursuing a series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal control environment. The objective of these initiatives is to strengthen the internal control environment to reduce the risk of error to an acceptable level and enable the company to execute the monthly close process to enable it to submit timely, unqualified capital reports and meet the 45-day quarterly filing requirement for SEC registrants. Most significantly, these initiatives include an end-to-end assessment of the design and effectiveness of the company's internal controls environment, and an initiative to improve information technology-related controls, together with remedial actions needed to address any issues identified in the course of these reviews. In addition, the company is scheduled to implement several of its planned system enhancements to its accounting, financial reporting and operational infrastructure later in the year.

The company expects to release quarterly and full-year 2005 financial results in late May. As previously disclosed, the company's reporting schedule for its 2005 results will allow management to implement a significant improvement in its method for determining the estimated fair values of its guarantee assets and guarantee obligations. For periods beginning with 2005 and going forward, the company will make greater use of third-party market information in its valuation methodology and is implementing this change in its 2005 financial statements as of the beginning of the year. This will be reflected as a change in estimate and significantly improves reliability and transparency in the valuation of these instruments. This change will not affect the company's previously released audited financial statements for 2004 and prior years.

22. On May 30, 2006, at the Company's fourth quarter 2005 earnings conference call, defendants made the following statements:

> [Syron:]
>
> We've accelerated our efforts to complete the needed improvements in our internal controls and infrastructure.
>
> This is our highest and most urgent priority. And let me assure you, Gene and I and everyone else here are treating it as such. We are committed to getting this done and we mean to succeed. We expect to complete the first major phase of our end-to-end design work and systems infrastructure enhancement this fall. Getting our house in order is essential to completing our return to timely reporting and meeting the requirements that our regulator, OFHEO, has established for us under our 30 percent capital surplus framework.
>
> This is even more important now. Director Lockhart has indicated that he intends to consider whether additional remedial actions may be appropriately applied to Freddie Mac while we continue to fix our control environment. And this could include consideration of portfolio growth limitations for some period of time. We have great respect for the new Director and the staff of OFHEO and we will continue to talk to them about our progress towards remediating our controls and complying with appropriate regulatory directives. But most important, we owe it to our shareholders to achieve a level of operational excellence in our financial reporting controls and in everything we do to achieve our housing mission and to generate long-term value.
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> [Ed Groshans, Fox-Pitt Kelton Analyst:]
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> Well, I think all the key topics have been asked. Just more to follow-up, in the opening comments there was discussion that the phase one would be completed in the full of the end-to-end systems integration. And do you have a sense of how many phases there are? And is phase one the longest phase and the other phases will be shorter? Or is it a 10-step process, a three-step process?
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> [McQuade:]
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> Well, I wouldn't bore you with the details, it's an eight-step process. Phase one actually is more of the planning stage. We are operating under a timeline that we would hope to be able to accomplish this by the end of the year, remediate any new control issues that would turn up, test the controls to make sure they are operating. We've got a substantial amount of corporate resources, they gave us this project. And we are hopeful that this will really build a pillar that we need in terms of the control environment in the company.

23. Also on May 30, 2006, the Company issued a press release entitled "Freddie Mac Reports 2005 Financial Results; Company Reports Market Share Growth and Continued Solid Risk Management Performance." The release stated in part:

> **INTERNAL CONTROLS UPDATE**
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> Improving internal control over financial reporting and addressing the risks of material weaknesses and other control deficiencies have been priorities for us and will continue to be so in 2006. The company is pursuing a series of initiatives to improve our financial reporting infrastructure and remediate material weaknesses and other deficiencies in our internal control environment. Most significantly, these initiatives include an end-to-end assessment of the design and effectiveness of the company's internal control over financial reporting, and an initiative to improve information technology-related controls, together with remedial actions needed to address any issues identified in the course of these reviews. Additionally, we are scheduled to implement several planned system enhancements later in the year. A more complete discussion of the status of our remediation efforts is included in the Information Statement Supplement dated as of today and available on our Web site.
>
> Despite our ongoing challenges in these areas, we believe our interest-rate and credit risks remain well managed, as demonstrated by our reported risk metrics and results.

24. In the Company's 2005 Annual Report, issued June 28, 2006, defendant Syron's "Message from the Chairman" stated in part:

> Our most urgent task is to do everything it takes to ensure that our internal controls and accounting systems are of the same high caliber as our financial risk management and reporting. There is no higher priority for Freddie Mac's senior management than completing this work and becoming timely in our financial reporting. This company must become the standard of excellence not only for managing mortgage risk, but for the accounting and internal controls associated with it.

25. The Annual Report further stated, under the heading "Risk Management":

> Executive management committees and other internal advisory groups monitor performance against our risk management strategies and established risk limits; identify and assess potential issues; and provide oversight regarding changes in business processes and activities. Within the business units, risk management personnel identify, monitor and report risks. Independent oversight of risk management is provided by our Enterprise Risk Oversight, Corporate Compliance and Internal Audit divisions, in addition to the oversight provided by the board of

directors and its committees. Together, these groups assess the adequacy and effectiveness of the risk management functions across the company.

While we believe that both our day-to-day and long-term management of interest-rate and other market risks and credit risks is satisfactory, weaknesses exist in our overall risk governance framework. We are focused on strengthening our capacity in four important areas: risk governance, risk identification, risk measurement and assessment, and related education and communication. Our risk management framework is being reviewed under a new leadership team in our Enterprise Risk Oversight to address these issues and to establish clear lines of authority, clarify roles and responsibilities, and to improve the overall effectiveness of the risk oversight function. We recently created an executive management enterprise risk committee to provide an enterprise-wide view of risk. Our board of directors also assigned primary responsibility for oversight of enterprise risk management to the newly re-chartered Governance, Nominating and Risk Oversight Committee of the board of directors.

26. By the summer of 2006, Freddie Mac's stock had declined to below $60 per share. Defendants sought to emphasize the improvements they had made in the structure and the business.

FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

27. On August 1, 2006, at a Freddie Mac Market Update, defendants made the following statements:

[Syron:]

We have put out a press release earlier today that describes our first-quarter results at a summary level. However, I'm also quite sure that many of you were very interested in a voluntary action we announced today to constrain our portfolio growth as we continue our financial remediation. Let me touch on that first, and then we will dedicate most of this call to taking your questions. The most important thing we can do is to try to be responsive to what you are most interested in. So we're anxious to get to that part of the call.

First, let me give you a sense of how we're thinking about the agreement in the context of Freddie's overall long-term mission and business. Today, we announced a voluntary undertaking to maintain an average annual growth of the Company's retained mortgage portfolio at no more than 2% above the level at June 30 of this year until we return to quarterly financial reporting. Simply put, we would say our regulator made a request of us, and we took action in response to that request. We acted because we believe a constructive relationship with our regulator is necessary and essential to our ability to generate long-term shareholder value.

* * *

Importantly, the letter states a specific condition precedent for expiration for the agreement. Namely, we must return to quarterly financial reporting in accordance with GAAP. We believe that it is important to provide certainty to investors, our customers and our employees, regarding what management needs to do in order to move forward. Today's announcement reinforces management's top priority. As we've said previously, our objective is to return to quarterly reporting, following the release of our full year 2006 reports in early 2007. Toward that objective, we are making progress in improving our infrastructure and remediating our control issues. But we must work hard during the remainder of this year and going forward to achieve quarterly reporting.

We are working closely with the examination staff from OFHEO to keep them up to speed on our progress and to address the concerns that they brought to our attention. To be successful, we need to achieve a number of objectives relating to controls and reporting systems. We plan on updating the market on our progress towards these objectives on a regular basis.

* * *

[Paul Miller, Friedman, Billings, Ramsey Analyst:]

Can you address some of the conversations that Lockhart has been saying about Freddie Mac [] does not have the controls and systems in place at this part of the juncture that they put you in the same category as Fannie Mae and getting their controls and it could take years before you could maybe raise your dividend or do any substantial buybacks without issuing preferred stock?

[Syron:]

I don't want to characterize or speak for the director. I would say that we believe we have strong [] and you can look at the numbers that we've put out on this [] credit risk and interest rate controls. But we do agree with the director that we have more work that we need to do with our operating systems and in addressing operating risks.

* * *

[McQuade:]

I would say there are three big areas that we're focused on. Just very broadly, I would say first is remediation of a number of both broad as well as specific control weaknesses in the Company. You can start by looking at our Annual Report; we've got six material weaknesses there. We've got a number of comments that OFEHEO has given us over the course of the last six or eight months. We've got some internal audit comments here that we're very focused on cleaning up. And we will

communicate with you over the course of the year, particularly on the material weaknesses as we bring those down.

Second general area would be on our financial close process. As we've switched to the accounting for GA/GO, we've had to slow down our close process. Our goal is that we would get current on our close process probably by October. And we would report to you then that we've got a crisp close process, where we're able to produce numbers, I would expect in about 30 days' time.

Then thirdly, we're going through a series of systems implementations over the next year or so. We've got some very large implementations going on this year. We have in the last two months switched our liquidity and contingency portfolio to a more permanent solution. That's about a $60 billion portfolio in and of itself. We've also switched our clearing systems to JP Morgan, so we've outsourced that. We've had good success with that. We've gone to an intraday overdraft system with the Fed as of July 20. We've had very good success on that conversion.

We have two other, very large systems conversions that I think would be milestones in the course of the year. One would be the switch of our retained portfolio from an interim accounting system to a permanent accounting system. I expect that to happen in the September/October timeframe. And then probably towards the beginning of next year, the switch of our debt and derivatives system, from again, an interim solution to a more final solution. And that would also be a big milestone in terms of essentially at that point getting the vast, vast, vast majority of our assets and liabilities on to more permanent system solutions.

28. On September 8, 2006, in his prepared remarks at the Company's Annual Shareholder Meeting, defendant Syron stated:

As for our controls work, suffice it to say our approach is comprehensive. We are fixing known issues; implementing improvements to our close-the-books process; implementing critical systems initiatives; and finally, carrying out a control review to ensure that from end to end, our entire upgraded system is working as seamlessly as it should. We've made progress in several of these areas already, and will have more to tell you at our next market update call.

29. On September 8, 2006, at the Company's Annual Shareholder Meeting conference call, defendant Syron made the following statements:

There is one thing that our voluntary agreement with OFHEO has done, and that is of course, to reinforce across our organization and to singe into all of our minds the importance of completing our internal controls and accounting remediation. Now, more than ever, getting this done and getting it done right is the highest priority of senior management and every Freddie employee, and I don't think there's any question about that if you would go across the company. Our objective is

to return to quarterly reporting, following the release of our full year 2006 results. What does that mean?

Well, in terms of timing, our goal is to report full-year 2006 by late in the first quarter 2007. Then our focus will shift to getting out the quarters for 2007. As to how our controls work, suffice it to say that our approach is indeed comprehensive. We're very encouraged that we've just finished our comprehensive plan. We're fixing known issues, implementing improvements to close the book's process, implementing critical system initiatives under the leadership of Joe Smialowski, and controlling our end-to-end review process.

All of the senior management of Freddie Mac at their own volition came together and suggested that we all work – even people who weren't directly responsible for this or are involved in it any way, but we set up a team and all of us focused a substantial part of our efforts on that. As a result, we've made progress in several of these areas already and we'll have more to tell you on our next market update call, which won't be too far away.

30. On September 12, 2006, in his prepared remarks at a Lehman Brothers Financial Services Conference, defendant Syron stated:

Comprehensive plan/financial reporting objectives

Increasingly at Freddie Mac, success in our mission and in our business is dependent on success in improving our internal systems and controls. This point is important to our customers, our investors and of course our regulators.

31. On September 18, 2006, speaking at the Bank of America 36th Annual Investment Conference, Senior Vice President and Treasurer of Freddie Mac, Timothy Bitsberger, made the following statements:

Financial reporting objectives/comprehensive plan

Increasingly at Freddie Mac, success in our mission and in our business is dependent on improving our internal systems and controls. This point is important to our customers, our investors and of course our regulators.

* * *

We have made progress on enhancing our internal financial reporting infrastructure so that we will be able to return to timely, GAAP-compliant financial reporting. We recognize that it's a critical and necessary step in order to operating with transparency and unlock value for shareholders. I know everyone's been waiting for this for a long time, but the problems were worse than we originally believed.

32. On October 3, 2006, the Company issued a press release entitled "Freddie Mac Provides Market Update; Estimated Net Income for First Half of 2006 of $2.7 Billion; Company Maintains Strong Capital Position and Continued Sold Risk Management Performance." The release stated in part:

> **INTERNAL CONTROLS AND FINANCIAL REPORTING UPDATE**
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> The company continues to work on a series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal controls. These activities are part of Freddie Mac's comprehensive plan for returning to quarterly financial reporting following the release of full year 2006 results. The comprehensive plan includes mitigation and remediation of identified control issues; strengthening of our financial close process; implementing critical systems initiatives; and completion of a review of the company's system of internal controls related to the processing and recording of the company's financial transactions. Management recently updated the Board and its regulator, OFHEO, on the elements of the plan and is executing and monitoring the critical path elements of the plan to enable the company to resolve these long-standing issues. Management will continue to update the market on the company's progress toward these objectives.
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> As part of this plan, the company recently implemented a new investments accounting platform for its liquidity and contingency portfolio. Management expects to implement this same platform for its retained portfolio prior to the end of the year. These systems enhancements will provide Freddie Mac with industry standard processes for the principal assets in its investment portfolio. On a related front, in September, Freddie Mac implemented an arrangement with JPMorgan Worldwide Securities Services to provide the company with industry standard transaction processing and record-keeping services for its retained portfolio. In addition, JPMorgan yesterday began providing the company with custodial services for its liquidity and contingency portfolio. Collectively, these efforts are providing significant improvements in the efficiency and controls relating to these critical processes.

33. On October 3, 2006, at the Company's Market Update conference call, defendants made the following statements:

> [Syron:]
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> And lastly and very importantly, under the leadership of Gene, we have made significant headway on our comprehensive plan for remediating our internal controls and systems. It's taken too long, but we're getting there. This is clearly the top

priority for us at Freddie, and today represents a significant component of the day-to-day responsibilities of more than half of our officers.

While there's still a lot of work left to do, I'm confident that we're well on our way to fixing our accounting infrastructure and our internal controls and returning to quarterly GAAP compliant financial reporting.

* * *

[McQuade:]

Then finally, we're making good progress in fixing our underlying financial controls. As you know, this has been the top management priority, and we've brought in a much broader group of officers from across the company to focus on getting the job done.

We currently have a number of important initiatives relating to our financial reporting systems coming online that will give us a much stronger basis for closing our books. We're also working on enhancements to our closing process.

In the past few months, we've brought a new investment accounting platform online, outsourced our settlement and custody functions and finalized our comprehensive plan for transforming Freddie to a much stronger control environment. Our targets remain the release of our full-year 2006 financials before the end of the first quarter of 2007 and the return to quarterly reporting during 2007.

To sum it all up, we had a great first half of the year financially, our risks continue to be well managed and controlled, and we're making good progress on our financial remediation efforts.

34. On January 5, 2007, the Company issued a press release entitled "Freddie Mac Provides Quarterly Market Update," which stated in part:

INTERNAL CONTROLS AND FINANCIAL REPORTING UPDATE

The company is continuing to make progress on the series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal controls. These activities are part of Freddie Mac's comprehensive plan for returning to quarterly financial reporting. The comprehensive plan includes mitigation and remediation of identified control issues; strengthening of the financial close process; implementing critical systems initiatives; and completion of a review of the company's system of internal controls related to the processing and recording of the company's financial transactions.

The company's plan is to release 2006 results prior to the end of the first quarter of 2007. An important milestone for the company's return to quarterly reporting will be the progress achieved in the remediation of internal controls and

implementation of new accounting systems. Throughout 2007, management will evaluate the company's remediation progress each quarter to determine whether the company has reduced the risk of a material misstatement to an acceptable level.

35. On January 5, 2007, during the Company's Market Update conference call, defendants made the following statements:

[Syron:]

Lastly, we remain very focused on completing the job of remediating our internal controls environment and returning to regular quarterly reporting of our financial results. We are making good progress and we continue to believe we will publish our full 2006 results by the end of the first quarter of this year. Then, we will set our sights on returning to quarterly reporting, which requires us to complete the systems work that we now have underway.

* * *

Let me now shift to our financial reporting, which is my number one priority. We continue to make progress on remediating our internal control weaknesses and improving our financial reporting capabilities and let me give you a brief update on our efforts.

First, our near-term goal is to release our full-year 2006 financial results prior to the end of the first quarter. While that is not as timely as the public market standard, for us, it is a big step in the right direction and so far, we are on track.

Second, as Dick said, we need to get back to regular quarterly reporting on a sustainable basis. Critical steps in completing this work are the strengthening of a number of our key controls, as well as the installation of several new accounting systems, including those for our investment portfolio and the debt and derivatives portfolio. Our current timetable for the systems to be completed is by mid-2007. That is a little later than we had initially planned, but it still puts us in a position to return to quarterly reporting in the second half of the year.

[Eric Wasserstrom – UBS Analyst:]

Buddy, I was wondering if you could – you touched on this a little bit in your commentary, but could you just remind us what systems implementations have already occurred and what you need to occur beyond the ones that you indicated on the call?

[Piszel:]

Well, we have made the first installation of the investment portfolio system for the liquidity and contingency portfolio. So we have got some experience with

that. There has been a lot of work over the last year or so on automating a lot of things that were very manual and that process continues.

The two big ones that we have coming up really are the entire retained – the rest of the retained portfolio and the debt and derivatives portfolios. And those are big events because right now there is a lot of manual work associated with the recordkeeping for those and when they get it installed, it dramatically reduces the overall risk environment that we operate in. So those are two big dating actions that will enable us to get back to competence in our quarterly reporting.

[Syron:]

I would add to that. We outsourced our custodial function in the late summer and fall, which also had a significant reduction in the amount of risk we had in the company. We outsourced that to JPMorgan and that has gone very well since we have done that and it has essentially brought our recordkeeping to a daily recordkeeping basis.

[Wasserstrom:]

And so beyond the implementation of the remaining portion of the retained portfolio and the derivative portfolio, are there other major systems events that need to occur?

[Piszel:]

Yes, we will be further automating the single-family business and the multifamily business. We will be making improvements to the overall financial systems architecture. So it is not like there are two systems and we are done. This work is going to continue for a number of years.

[Wasserstrom:]

Okay. But in terms of getting beyond the point where there are material risks to your reporting, at what point could we consider that to be accomplished?

[Piszel:]

Well, we will be returning to timely quarterly reporting in the second half and we would have to have a stable control environment to be able to get there.

[Wasserstrom:]

And just so that I understand that point entirely, is it possible that when you return to – is it therefore implicit in your return to quarterly reporting that there will be no significant material weaknesses or is it possible that there could still be some?

> [Piszel:]
>
> It is possible that there could be some. The whole idea here is to firm up the internal control environment and with that said, we will still have to perform a number of additional steps that normally wouldn't be there, but we believe we understand what those would be to mitigate whatever risks we have remaining and that is the plan. So you can think about an environment where the control environment is improving, but as that improves, we have to do less additional work to be able to substantiate the financial statements.

36. On January 30, 2007, in the Company's prepared remarks at a Citigroup Financial Services Conference, defendant Cook made the following statements:

> Finally, with a variety of both competitive pressures and market opportunities presenting themselves, it is more important than ever for us to complete the remediation of our financial reporting infrastructure. While many of our efforts have not been visible to the market, we have actually made meaningful progress on these fronts in the past year. I know it's been a long time coming, but we've got good traction.

37. On February 27, 2007, the Company issued a press release entitled "Freddie Mac Announces Tougher Subprime Lending Standards to Help Reduce the Risk of Future Borrower Default," which stated in part:

> Freddie Mac today announced that it will cease buying subprime mortgages that have a high likelihood of excessive payment shock and possible foreclosure. First, Freddie Mac will only buy subprime adjustable-rate mortgages (ARMs) – and mortgage-related securities backed by these subprime loans – that qualify borrowers at the fully-indexed and fully-amortizing rate. The goal is to protect future borrowers from the payment shock that could occur when their adjustable rate mortgages increase.
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> * * *
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> Freddie Mac's new requirements cover what are commonly referred to as 2/28 and 3/27 hybrid ARMs, which currently comprise roughly three-quarters of the subprime market. Specifically, the company is requiring that borrowers applying for these products be underwritten at the fully- indexed and amortizing rate, as opposed to the initial "teaser" rate. The company also will limit the use of low-documentation products in combination with these loans. For example, the company will no longer purchase "No Income, No Asset" documentation loans and will limit "Stated Income, Stated Assets" products to borrowers whose incomes derive from hard-to-verify sources, such as the self-employed and those in the "cash economy." There will be a reasonableness standard for stated incomes.

38. On March 23, 2007, in its 2006 Annual Report, defendants made the following statements:

> While Freddie Mac reached many of our goals last year, some major challenges remained unmet. Foremost among them was the essential task of getting current in our financials and strengthening our internal controls. There's no question this has taken longer than any of us expected.
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> Fortunately, we have developed and are carrying out a comprehensive plan that embodies our detailed blueprint for completing this job. We have first-rate teams and project leaders implementing this plan and they are making good progress. Our goal is to return to quarterly financial reporting this year. And we are working assiduously to improve our internal controls systems and infrastructure. As I said in last year's letter to stockholders, Freddie Mac must become the standard of excellence not only for managing mortgage risk, but for the accounting and internal controls associated with it.
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> * * *
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> **Operational Risks**
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> Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, failures of the technology used to support our business activities and other operational challenges from failed or inadequate internal controls. We face a number of significant operational risks, including material weaknesses and other significant deficiencies in our internal control over financial reporting. These operational risks may expose us to financial loss, may delay or interfere with our ability to return to and sustain timely financial reporting, or may result in other adverse consequences. Governance over the management of our operational risks takes place through the enterprise risk management framework described above. Business areas retain primary responsibility for identifying, assessing and reporting their operational risks.
>
> Our business processes are highly dependent on our use of technology and business and financial models. We face challenges in the areas of system security, change management and information technology application and general controls. *See* "*Internal Control Over Financial Reporting*'' for more information concerning material weaknesses related to our systems. In recent years, we have strengthened our processes to validate model assumptions, code, theory and the system applications that utilize our models. We are currently improving our model oversight processes and enhancing our staffing both within the business areas and in our risk oversight functions.
>
> We continue to make significant investments to build new financial reporting systems and move to more effective and efficient business processing systems. Until

those systems are implemented, we continue to remain more reliant on end-user computing systems than is desirable and we are challenged to effectively and timely deliver integrated production systems. Reliance on certain of these end-user computing systems increases the risk of errors in some of our core operational processes and increases our dependency on monitoring controls. In the near term, we are mitigating this risk by improving our documentation and controls over these systems and placing certain key end-user systems into a change management process controlled by our information technology group.

Our efforts to develop and deploy new financial reporting and business process systems have limited our flexibility to release new products and other business initiatives in response to competitive market forces. We manage this risk through a management committee that monitors key projects and allocates resources to development efforts.

We outsource certain key functions to external parties, including (a) processing functions for trade capture, market risk management analytics and asset valuation, (b) custody and recordkeeping and (c) processing functions for mortgage loan underwriting. In addition, we use a process of delegated underwriting for the single-family mortgages we purchase or securitize. We also expect to implement a process of delegated underwriting for certain multifamily mortgages we purchase or securitize. *See* "Credit Risks – *Mortgage Credit Risk – Underwriting Requirements and Quality Control Standards*'' for information about how we mitigate the risks associated with delegated underwriting. We mitigate the risk from our use of external parties by engaging in active vendor management, such as establishing detailed vendor requirements, reviewing business continuity plans, monitoring quality assurance processes and using third party reviews of our vendors.

In recognition of the importance of the accuracy and reliability of our valuation of financial instruments, we engage in an ongoing internal review of our valuations. We perform analysis of internal valuations on a monthly basis to confirm the reasonableness of the valuations. This analysis is performed by a group that is independent of the business area responsible for valuing the positions. Our verification and validation procedures depend on the nature of the security and valuation methodology being reviewed and may include: comparisons with external pricing sources, comparisons with observed trades, independent verification of key valuation model inputs and independent security modeling. Results of the monthly verification process, as well as any changes in our valuation methodologies, are reported to a management committee that is responsible for reviewing and approving the approaches used in our valuations to ensure that they are well controlled and effective, and result in reasonable fair values.

* * *

Internal Control Over Financial Reporting

. . . During 2006, we developed a comprehensive plan for returning to quarterly financial reporting. The comprehensive plan includes mitigation and remediation of identified material weaknesses and significant deficiencies; strengthening of our financial close process; implementation of critical systems initiatives; and completion of a review of our system of internal controls related to the processing and recording of financial transactions.

We have made progress implementing changes to our accounting, financial reporting and operational infrastructure that have improved our internal control environment, including outsourcing the custody and recordkeeping functions for our Retained portfolio and Cash and investments portfolio, implementing a new accounting sub-ledger for our Cash and investments portfolio and upgrading our general ledger system. However, certain key initiatives, including the implementation of a new sub-ledger for our Retained portfolio, were not completed by year-end as originally planned and will continue to be part of our remediation efforts in 2007.

As a result of our efforts, we made significant progress toward the remediation of our material weaknesses, as described below. However, each of the material weaknesses identified in prior years persisted throughout 2006 and they continue to present challenges for us in 2007.

We also made progress in the remediation of the significant deficiencies in our internal control and we have mitigated some of them so that they have been reduced to control deficiencies in our internal control over financial reporting. For example, we enhanced our risk governance framework thereby reducing the severity of the weaknesses that existed in this area. We also improved our processes for identifying security impairments and the governance of and change management processes related to the amortization of deferred premiums, discounts and deferred fees for assets held in our Retained portfolio.

While we have made progress in our remediation efforts, our material weaknesses and remaining significant deficiencies will continue to pose significant risks to our financial reporting processes until adequately remediated. The material weaknesses that affected us through December 31, 2006 and continue to present challenges for us, as well as our related remediation activities, are described below:

Integration among our systems, business units and external service providers. Our systems and processes related to our operational and financial accounting systems, business units and external service providers are not adequately integrated. This inadequate integration increases the risk of error in our financial reporting due to: (a) the potential failure to correctly pass information between systems and processes; (b) incompatibility of data between systems; (c) incompatible systems; or (d) a lack of clarity in process ownership. To compensate for this weakness, we have implemented mitigating controls, including extensive manual procedures to perform

data validation and financial analytics. We have also enhanced the communication and coordination between our business units.

Our remediation efforts are targeted to address risks posed by (a) the hand-off of data between systems, business units and various data owners, (b) the reliance on end-user computing solutions or (c) reliance on simplifying assumptions in the applications of our accounting policies. We have also formalized internal guidance for controls over the hand-off of data at all stages of our financial close processes, end-user computing solutions and the use of simplifying assumptions in our accounting policies. Our remediation plans include identifying areas that require attention, evaluating our application of the new internal guidance for the hand-off of data and remediating any control deficiencies identified. We have also undertaken an initiative to more clearly link the application of our accounting policies to our systems and our end-user computing solutions.

We have undertaken an initiative to redesign our financial close process to make timely financial reporting possible. Our remediation efforts currently focus on implementing enhancements to our current financial close process, while addressing our objective of long-term sustainability in our processes. We have defined and begun monitoring performance metrics to evaluate our progress in achieving close targets, with a focus on accuracy and timeliness.

Information technology general controls as they relate to change management. Our controls over managing the introduction of program and data changes need improvement. Weaknesses in these controls include a lack of consistent standards and inadequate testing of changes prior to deployment; an environment and processes that increase the difficulties of establishing and maintaining internal control; and issues arising from inherent system limitations.

We are implementing new change management processes so that changes to our system applications and new system implementations are properly designed and approved, fully tested and meet the requirements of the business. We are also focused on promoting an environment of accountability for adhering to change management processes and providing our staff with the tools and training to implement system changes appropriately.

Information technology general controls as they relate to security administration, management and technology. Our controls over information systems security administration and management functions need to improve in the following areas: (a) granting and revoking user access rights; (b) segregation of duties; (c) monitoring user access rights; and (d) periodic review of the appropriateness of access rights. Weaknesses in these controls could allow unauthorized users to access, enter, delete or change data in these systems, as well as increase the possibility that entries could be duplicated or omitted inadvertently.

Our remediation efforts include reviewing the design of our existing controls against industry standards, establishing new procedures to secure data and restrict

access to appropriate users, and the development of new tools to monitor access to data and the types of access granted to specific users. We are also centralizing the responsibility for granting user access to key system applications and enhancing our automation of controls designed to prevent unauthorized or inappropriate levels of system access.

Monitoring of results within financial operations and reporting functions. The controls we use to monitor the results of our financial reporting process, such as the performance of financial analytics and account reconciliations, failed to identify certain issues that required adjustments to our financial results prior to our reporting them.

Our remediation efforts have included a detailed evaluation and redesign of our financial analytics and reconciliation procedures, and the implementation of regular, structured reviews of monthly financial results and accounting matters. We are continuing to identify additional financial analytics improvements that we need to make. Additionally, we need to continue to execute the new controls for a period of time in order to assess their effectiveness.

Staffing adequacy. During 2006, we made progress in our efforts to build a strong management team by filling several key senior management positions. However, we must continue to recruit additional qualified people into leadership and key staff positions in targeted functions within the company to achieve our objectives for the remediation of our internal control deficiencies. Our employee voluntary turnover rate was higher in 2005 than prior years, but voluntary turnover in 2006 was significantly lower than 2005. Undesirable voluntary turnover strains existing resources and contributes to increased operational risk. Furthermore, our standards of performance need to be enforced in order to create a more effective culture of accountability.

Our remediation activities are focused on addressing staffing issues in targeted areas across the company by identifying and filling critical vacancies, addressing staff development and training needs, and eliminating key person dependencies in critical roles. Additionally, we are taking steps to build a culture of accountability that supports operational risk management decision-making and promotes the urgency to identify and address deficiencies in our internal controls. For example, risk management accountability has been formally included as a performance objective for all our employees. We are also reinforcing accountability through staff training that raises the awareness of risks in our business and highlights the importance of maintaining effective internal controls.

Management risk and control self-assessment process. We do not currently have a self-assessment process for our internal control over financial reporting in order to reliably enable management to identify deficiencies in our internal control, evaluate the effectiveness of internal control or modify our control procedures in response to changes in risk in a timely manner.

Our remediation activities are focused on an in-depth assessment of the design of internal control over financial reporting in our existing business processes and the development of a self-assessment process that will provide management with a more timely and reliable tool to identify changes to our processes, risks, and controls in order to identify and remediate control deficiencies. The new management self-assessment process will be implemented under an enhanced risk governance structure designed to identify and escalate risk issues and control deficiencies in a timely manner. Our objective for this new process is to allow us to assess the design and effectiveness of our internal control over financial reporting in a manner consistent with the requirements of the Sarbanes-Oxley Act of 2002.

In addition to these material weaknesses, we identified a number of significant deficiencies in our internal control over financial reporting that, although not determined to be material weaknesses as of the end of the year, still present risks of error in our financial statements and disclosures. These significant deficiencies include:

- deficiencies in our processes related to the valuation of our guarantee-related assets and liabilities;
- deficiencies in our controls over the accuracy and completeness of data received from external counterparties or passed between our business processes and used in our transaction processing and financial reporting systems;
- over-reliance on end-user computing solutions with insufficient development, documentation and change controls;
- deficiencies in our new product implementation process; and
- deficiencies in our procedures for monitoring our use of simplifying assumptions in the application of our accounting policies, and our excessive reliance on such assumptions. The excessive use of simplifying assumptions increases the risk that insignificant differences, when compared to a stricter application of our accounting policies, could become consequential over time and result in errors that are not detected (*e.g.*, if the underlying transaction volume affected by a simplifying assumption increases).

As we continue our remediation activities, we may identify additional material weaknesses, significant deficiencies or other operational issues in our internal controls or conclude that significant deficiencies we have already identified should be regarded as material weaknesses, either individually or in the aggregate. Improvements to the processes and controls we put in place to remediate our control deficiencies need to operate for a period of time to enable us to evaluate their effectiveness.

> The material weaknesses and significant deficiencies in our internal control over financial reporting adversely affect our ability to record, process, summarize and report financial data in a timely manner. Based on the continued existence of material weaknesses at December 31, 2006, our Chief Executive Officer and Chief Financial Officer have concluded that our internal control over financial reporting was not effective at December 31, 2006. In order to compensate for the material weaknesses and other deficiencies in our internal controls, we continue to perform extensive verification and validation procedures to provide reasonable assurance that our consolidated financial statements are prepared in accordance with GAAP. Therefore, in view of the additional procedures we performed, we believe that these weaknesses do not prevent us from preparing and issuing our consolidated financial statements in conformity with GAAP.
>
> Our resumption of interim financial reporting will depend on continued progress with our remediation efforts; however, our objective is to return to quarterly reporting during the second half of 2007. We will begin the process of registering our common stock with the SEC after resuming timely quarterly reporting.

39. On March 23, 2007, in a Company press release entitled "Freddie Mac Reports 2006 Financial Results," defendants stated:

> **Internal Controls**
>
> The company is continuing to make progress on the series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal controls. These activities are part of Freddie Mac's comprehensive plan for returning to quarterly financial reporting. The comprehensive plan includes mitigation and remediation of identified material weaknesses and significant deficiencies; strengthening of the financial close process; implementing critical systems initiatives; and completion of a review of the company's system of internal controls related to the processing and recording of the company's financial transactions.

40. On March 23, 2007, during the Company's fourth quarter 2006 earnings conference call, defendants made the following statements:

> [Syron:]
>
> Through the continued hard work of our employees and the expanded capabilities in our executive team, Freddie Mac made significant progress towards fixing our internal controls and financial reporting structure. This call and the release of our 2006 financials about 80 days after the end of the year demonstrates that progress and marks an improvement of two months over our 2005 timeline. We believe we are improving our process every month and expect to continue to make improvements in our disclosure and reporting timeline throughout 2007. This work

> will ultimately make our internal controls and processes as strong as our balance sheet is.
>
> * * *
>
> [Piszel:]
>
> Third, we were able to generate all of the information contained in the Annual Report and all the supplemental information we've provided and go through a full audit and still be done in around 80 days. This is a big step in the right direction and gives us confidence in getting back to quarterly reporting in 2007. Lastly, our control environment grows stronger every day. We're making good progress on remediating our control issues. In the first quarter of 2007, we have remedied 3 of our 16 serious matters. We are intensely focused on the rest and you should see items drop off the list each quarter. Ultimately, as Dick said, we want our internal controls and processes as strong as our balance sheet and I'm confident we can get there.

41. On June 8, 2007, at the Company's Annual Stockholders' Meeting, defendant Syron stated in his prepared remarks:

> The third issue is financial reporting and internal controls – and it's one where we were heartened by the progress we made, but obviously not totally satisfied. We have implemented a sound, comprehensive plan to make the needed improvements and we have made considerable progress in the past year.
>
> Our sign of this progress was our annual report; it took roughly 80 days to release our 2006 financials. And as I noted at the outset, we will resume quarterly reporting when we release our first quarter 2007 earnings next week, on the morning of June 14.
>
> So our progress tells us we are turning the corner in this area. And we will not ease up our efforts to strengthen our internal controls until that vital job is done, as well.

42. On June 8, 2007, at the Company's Annual Stockholders' Meeting, defendant Syron made the following statements:

> The third issue I said I'd mention, obviously, is financial reporting and internal controls. This is one where we were gratified by the progress we made last year in 2006, but not totally satisfied by that progress.
>
> We have implemented a very sound, comprehensive plan to make the needed improvements. We've made considerable progress. I won't go through it now, but if you look at our successive reports, they've come in with less and less delay, if I can

> put it that way. And as I said, we're very proud that next week, for the first time in five years, we'll return to quarterly reporting.
>
> So, we think we're turning the corner. And we're not going to ease up on our efforts to strengthen our internal controls until that's done.

43. On June 14, 2007, the Company issued a press release entitled "Freddie Mac Releases First Quarter 2007 Financial Results; Company Resumes Quarterly Reporting," which stated in part:

> **Internal Controls**
>
> Remediation of the material weaknesses and significant deficiencies in Freddie Mac's financial reporting process continues to be a top corporate priority in 2007. The company is continuing to make progress on a series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal controls. These activities are part of Freddie Mac's comprehensive plan for returning to timely quarterly financial reporting. Efforts made to date have resulted in a strengthened control environment.
>
> The company has made significant progress in addressing its internal control issues. For example, it has addressed the material weakness related to the adequacy of its staffing by adequately filling the company's critical vacancies in areas related to controls and financial reporting. Additionally, the company has addressed the significant deficiency related to governance over new products processes by redesigning the process and controls over the implementation of new products.

44. On June 14, 2007, during the Company's first quarter 2007 financial results conference call, defendant Piszel made the following statements:

> I will close on our progress on capital management, financial reporting and internal controls. First, capital – following the release of our '06 results, we initiated our preferred-for-common swap under our $1 billion authorization. We began our activities in late March, and I am pleased to tell you that we bought back $750 million in common shares and issued $500 million in preferred stock through the end of May.
>
> Having spoken directly with many of our investors in the past few months, I know how important progress is on this front. While we still have work to do, our recent actions make it clear that this is a high priority for our management team and that we'll take every opportunity we can to deliver shareholder value through capital management activities.
>
> On controls, improving our controls and financial timeline can only help in this effort. So let me make a couple points. First, with today's release, in 75 days we

achieved an improvement of one full week over our year-end '06 release. My goal is to get to 60 days for the third quarter, and at this rate we're right on target.

Second, having been here for a little over six months, I am increasingly comfortable with our monthly and our quarterly processes and am confident that we will be able to issue our full-year 2007 Annual Report within 60 days of year end, which is timely by any standards. This puts us in a good position to begin the SEC registration process in mid-2008.

* * *

Lastly, we have addressed two more of our control issues – the first addressed the material weakness on the adequacy of staffing. We did this by filling critical vacancies in the controls and financial reporting areas and also by improving our HR practices. Second, we resolved issues related to new products governance, where we redesigned the process and controls over the implementation of new products. Overall, we're making very good progress on the remaining issues, and I'm optimistic that we will have the bulk of our control issues behind us by the end of the year.

45. On August 30, 2007, the Company issued a press release entitled "Freddie Mac Releases Second Quarter 2007 Financial Results; Net Income of $764 Million, Value Increase of $800 Million," which stated in part:

Internal Controls

Remediation of the material weaknesses and significant deficiencies in Freddie Mac's financial reporting process continues to be a top corporate priority in 2007. The company is continuing to make significant progress on a series of initiatives to improve its financial reporting infrastructure and remediate material weaknesses and other deficiencies in its internal controls. These activities are part of Freddie Mac's comprehensive plan for returning to timely quarterly financial reporting. Efforts made to date have resulted in a strengthened control environment.

46. On August 30, 2007, during the Company's second quarter 2007 financial results conference call, defendants made the following statements:

[Syron:]

So those are the headlines: a return to profitability, very tangible execution of our mission in a tough time, improved controls and accelerated financial reporting.

* * *

> [Piszel:]
>
> I'll close by discussing our progress on our capital management, financial reporting and internal controls.
>
> * * *
>
> On a control front and timeline, let me make a couple points. First, with today's release in 61 days, we have meaningfully accelerated our financial release process. As a reminder, our target for the third quarter was 60 days, so we're basically a quarter ahead of schedule. Given the success and our commitment to continue to improve with each release, we are targeting the release of the third quarter results by Thanksgiving. That would represent a further improvement of 10 days.
>
> Second, as we've just advanced the timeliness of our financial reporting, we are also making progress on new and more understandable results presentation. I would expect to roll that out with a full set of presentation and disclosures in early 2008 in anticipation of SEC registration. Lastly, in this quarter, we've addressed two more significant deficiencies in our financial reporting process. The first related to tightening of our GAAP policies and the second related to improved oversight of our financial and business models. So we are making very good progress on our overall remaining issues, and I'm optimistic that we will have the bulk of our control issues behind us by year-end. With that, let me turn it back to Dick.

47. On September 10, 2007, at the Lehman Brothers 5th Annual Financial Services Conference, defendant Cook made the following statements:

> On our timeline – with our release of second-quarter results in 61 days we have accelerated our financial release process. Given this success and our commitment to keep improving with each release, we're targeting the release of third-quarter results by Thanksgiving. I give Buddy and his team a lot of credit for this success and it gives us increasing confidence in our ability to complete our remediation process and register with the SEC in the middle of next year.

48. On September 17, 2007, at the Bank of America Securities 37th Annual Investor Conference, defendant Piszel made the following statements:

> If I think about where we are in our time line and the remediation process, we're really pleased with the progress that we've made. We started out the year, first quarter, we got our year end numbers out in decent timing, 75 days. First quarter we were able to bring that down, second quarter we were able to bring that down to about 61 days. What we've announced is that for the third quarter, we'll have our numbers out by Thanksgiving, that's around 50 days. That's getting to that magic

> number of 45 which is what we need in order to go through the SEC regulation and we're still confident that we can do that by midyear 2008.

49. On November 7, 2007, the Office of the New York State Attorney General issued a press release which stated in part:

> Attorney General Andrew M. Cuomo today announced his office has sent Letters of Notice and Demand, providing notice of the issuance of Martin Act subpoenas and a demand for an Independent Examiner, to the nation's two largest financiers of home mortgages, Fannie Mae and Freddie Mac. Cuomo also announced that Fannie Mae and Freddie Mac have agreed to the demand to retain an Independent Examiner, subject to the Attorney General's approval, to conduct a total review of all Washington Mutual appraisals and mortgages purchased by the companies.
>
> * * *
>
> Today's announcement marks the latest expansion of Cuomo's industry-wide investigation of mortgage fraud. Last week, Cuomo filed suit against First American Corporation, and its subsidiary eAppraiselt, one of the nation's largest real estate appraisal management companies, for colluding with Washington Mutual to inflate the appraisal values of homes.
>
> "In order to fulfill their duty to consumers and investors, Fannie Mae and Freddie Mac must ensure that Washington Mutual's mortgages have not been corrupted by inflated appraisals," said Attorney General Cuomo. "Our expanding investigation into the mortgage industry has uncovered that Washington Mutual improperly pressured appraisers to provide inflated values that best served the lender's interest. Knowing this, Fannie Mae and Freddie Mac cannot afford to continue buying Washington Mutual mortgages unless they are sure these loans are based on reliable and independent appraisals."
>
> The subpoenas issued include requests for:
>
> - Information about all of the mortgage loans Fannie Mae and Freddie Mac have purchased from any bank, including Washington Mutual, and the mortgage-backed securities associated with those loans;
> - Information about due diligence practices of Fannie Mae, Freddie Mac;
> - Information about appraisals and valuations by the originating lenders;
> - Policies and procedures related to valuing properties and appraisals.
>
> Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation are two of the largest financiers of home mortgages in the country, and both purchase loans from Washington Mutual. Washington Mutual is the third largest provider of loans to Freddie Mac, selling

> $24.7 billion in loans in 2007 alone. Washington Mutual is also the fourteenth largest provider of loans to Fannie Mae, selling $7.8 billion in loans in 2007.
>
> "The integrity of our mortgage system depends on independent appraisers," said Cuomo. "Washington Mutual compromised the fairness of this system by illegally pressuring appraisers to provide inflated values. Every company that buys loans from Washington Mutual must be sure that the loans they purchased are not corrupted by this systemic fraud."
>
> The lawsuit filed last week details a scheme in numerous e-mails showing First American and eAppraiselT caved to pressure from Washington Mutual to use appraisers who provided inflated appraisals on homes. E-mails also show that executives at First American and eAppraisalT knew their behavior was illegal, but intentionally broke the law to secure future business with Washington Mutual. Between April 2006 and October 2007, eAppraisalT provided over 250,000 appraisals for Washington Mutual.

50. The November 6, 2007 letter from Andrew M. Cuomo, Attorney General for the State of New York, stated:

> Dear Mr. Syron,
>
> Over the last nine months, the Office of the New York Attorney General (this "Office") has conducted a wide-ranging investigation into conflicts of interest and fraud in the mortgage industry. During the course of our investigation, we have uncovered a pattern of collusion between lenders and appraisers that has resulted in widespread inflation of the valuations of homes.
>
> As you no doubt are aware, lenders now regularly sell the mortgage loans they make into the financial markets, either directly or to investment banks or Government Sponsored Enterprises ("GSEs"), such as Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The loans are then pooled together, scrutinized, and sold to the general public as mortgage backed securities.
>
> This configuration has the effect of making the lender less vigilant against risky loans since any risk is quickly transferred to the purchasers of the loans. Moreover, as the lender does not hold many of its loans in its portfolio, the lender's interest is ensuring the accuracy of the appraisal backing the loan is severely diminished. Even worse, because lender's profits are determined by the quantity of loans they successfully close, and not the quality of those loans, there is an incentive for a lender to pressure appraisers to reach values that will allow the loan to close, whether or not the appraisal accurately reflects the home value.
>
> Further jeopardizing the process, mortgage brokers and the lenders' loan production staff are almost always paid on commission. Thus, the income of these

individuals depends on whether a loan closes and on the size of the loan. Accordingly, brokers and loan production staff have strong personal incentives to pressure appraisers to value a home at the maximum possible amount, so that loans will close and generate maximum commissions. For these reasons, mortgage brokers and lenders frequently subject real estate appraisers to intense pressure to change values in appraisal reports.

The investment banks and GSEs may also have an interest in inflating (or at least in not questioning) the value of the pooled loans. The values of these loans serve as a basis for the value of their securities. As such, the higher the value of the loans closed, the greater the value for which the securities are sold on the secondary market.

As part of investigation, this office recently filed a complaint against First American Corporation ("First American") and its subsidiary First American eAppraiseIIT ("eAppraiseIIT"), a company that performed over 260,000 appraisals for Washington Mutual, Inc. ("WaMu"). The complaint alleges that under pressure from WaMu, EA violated the Uniform Standards of Professional Appraisal Practice ("USPAP") and federal and state law by permitting WaMu to control the selection of property appraisers engaged to appraise collateral for WaMu-originated mortgages based on whether the appraisers "hit the values" required to close loans. This practice led to inflated property valuations and enabled WaMu to originate larger, more profitable, mortgages, and a greater number of mortgages, than would have been possible had appraisals been performed, as required by fully independent appraisers. The complaint against First American and eAppraiseIIT, is enclosed.

We understand that Freddie Mac purchases significant number of purportedly "conforming" mortgages from WaMu. The evidence shows, however, that these mortgages may be premised on fraudulently inflated appraisals and not upon appraisals that met USPAP and related statutory and regulatory standards. ***Accordingly, Freddie Mac's own shareholders and investors who purchased securities issued by Freddie Mac may have been harmed***. Some of these shareholders and investors were New York individuals and institutions.

In light of the above, Freddie Mac should immediately retain an Independent Examiner, subject to this Office's approval, to investigate, review and analyze all appraisals that support the WaMu mortgages that Freddie Mac purchases or securitizes; the manner in which WaMu engages appraisers and manages its appraisal process; and all appraisals conducted by First American and eAppraiseIIT that support any mortgages Freddie Mac purchases or securitizes. Should you decline to immediately retain such an Independent Examiner, Freddie Mac should immediately cease and desist purchasing and securitizing WaMu loans and any loans supported by First American and eAppraiseIIT appraisals.

Furthermore, pressure on appraisers and inflated appraisals appear to be widespread problems in the mortgage industry. We are, therefore, expanding our investigation to determine the extent of Freddie Mac's knowledge of, and actions

> regarding, these problems as they relate to past mortgage purchases and securitizations by Freddie Mac. For that reason, pursuant to this Office's investigative authority under New York General Business Law § 352 and New York Executive Law § 63(12), accompanying this letter is a subpoena to Freddie Mac returnable on November 28, 2007.
>
> Sincerely yours,
>
> Andrew M. Cuomo

51. On November 7, 2007, Freddie Mac issued a press release entitled "Freddie Mac Statement in Response to New York Attorney General Subpoenas," which stated in part:

> Accurate appraisals are fundamental to our effective credit risk management as well as to the long-term success of the homebuyers we are charted to serve. . . . We look forward to cooperating fully with the New York Attorney General's investigation and have agreed to appoint an Independent Examiner, as requested, to review the appraisal practices cited in the Attorney General's complaint.

52. Then, on November 20, 2007, Freddie Mac announced it had lost $2 billion in the third quarter and announced it would have to raise fresh capital to meet regulatory requirements. The Company posted negative revenue of $678 million, as it sustained losses under generally accepted accounting principles of $3.6 billion in the quarter. The revenue compared with positive revenue of $91 million a year earlier. Defendant Piszel was quoted:

> "We have begun raising prices, tightened our credit standards and enhanced our risk management practices. We also continue to improve our internal controls . . . ."

53. As a result, Freddie Mac's stock price dropped from $60 in mid-October 2007 to $26.74 on November 20, 2007. This decrease in Freddie Mac's stock price was a result of the artificial inflation caused by defendants' misleading statements coming out of the stock price.

54. In fact, during the Class Period, defendants concealed the following information which caused their statements to be materially false and misleading:

(a) Defendants were not implementing sufficient risk management controls to protect the Company from acquiring billions of dollars worth of mortgages with poor underwriting standards, causing the Company to have an untenable amount of risky loans.

(b) Defendants were not implementing controls to ensure that appraisals were done appropriately and to prevent collusion between lenders and appraisers, increasing the risk of defaults.

(c) The Company was not adequately reserving for uncollectible loans, causing its financial results to be misleading.

(d) The Company had billions of dollars of bad loans which it would eventually have to write off, causing losses and capital deficiencies.

LOSS CAUSATION/ECONOMIC LOSS

55. During the Class Period, as detailed herein, defendants made false and misleading statements by means of concealment of Freddie Mac's problems with subprime and other problematic mortgages and engaged in a scheme to deceive the market. This artificially inflated Freddie Mac's stock price and operated as a fraud or deceit on the Class. Later, when defendants' prior misrepresentations and fraudulent conduct became apparent to the market, Freddie Mac's stock price fell precipitously, as the prior artificial inflation came out of the stock price over time. As a result of their purchases of Freddie Mac stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET

56. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's stock traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's stock; and

(e) Plaintiff and other members of the Class purchased Freddie Mac stock between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

57. At all relevant times, the market for Freddie Mac stock was efficient for the following reasons, among others:

(a) As a regulated issuer, Freddie Mac filed periodic public reports with the SEC; and

(b) Freddie Mac regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

58. Plaintiff incorporates ¶¶1-57 by reference.

59. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that they contained

misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

60. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Freddie Mac common stock during the Class Period.

61. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Freddie Mac common stock. Plaintiff and the Class would not have purchased Freddie Mac common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

62. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Freddie Mac common stock during the Class Period.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

63. Plaintiff incorporates ¶¶1-62 by reference.

64. The Individual Defendants acted as controlling persons of Freddie Mac within the meaning of §20 of the 1934 Act. By virtue of their positions and their power to control public statements about Freddie Mac, the Individual Defendants had the power and ability to control the

actions of Freddie Mac and its employees. Freddie Mac controlled the Individual Defendants and its other officers and employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

65. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Freddie Mac common stock during the Class Period (the "Class"). Excluded from the Class are defendants, directors and officers of Freddie Mac and their families and affiliates.

66. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Freddie Mac has more than 650 million shares of stock outstanding, owned by thousands of persons.

67. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) Whether the 1934 Act was violated by defendants;

(b) Whether defendants omitted and/or misrepresented material facts;

(c) Whether defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;

(e) Whether the price of Freddie Mac common stock was artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

68. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

69. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

70. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding plaintiff and the members of the Class damages and interest;

C. Awarding plaintiff's reasonable costs, including attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: November 21, 2007

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